

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Parks and Recreation	(2) MEETING DATE 5/17/2016	(3) CONTACT/PHONE Nick Franco/805-781-5204	
(4) SUBJECT Provide direction by selecting one or more options regarding continued operations of Dairy Creek Golf Course with reduced reclaimed water delivery. District 2.			
(5) RECOMMENDED ACTION It is recommended that the Board provide direction to staff related to water use and funding support by selecting one or more of the presented options regarding continued operations of the Dairy Creek Golf Course.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT { } Consent { } Presentation { } Hearing (Time Est. ____) { x } Board Business (Time Est. 60 min)			
(11) EXECUTED DOCUMENTS { } Resolutions { } Contracts { } Ordinances { } N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR)		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: { } 4/5 Vote Required { x } N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY { x } N/A Date: _____	
(17) ADMINISTRATIVE OFFICE REVIEW David E. Grim			
(18) SUPERVISOR DISTRICT(S) District 2			

County of San Luis Obispo



TO: Board of Supervisors

FROM: Parks and Recreation / Nick Franco/805-781-5204

DATE: 5/17/2016

SUBJECT: Provide direction by selecting one or more options regarding continued operations of Dairy Creek Golf Course with reduced reclaimed water delivery.

RECOMMENDATION

It is recommended that the Board provide direction to staff related to water use and funding support by selecting one or more of the presented options regarding continued operations of the Dairy Creek Golf Course.

DISCUSSION

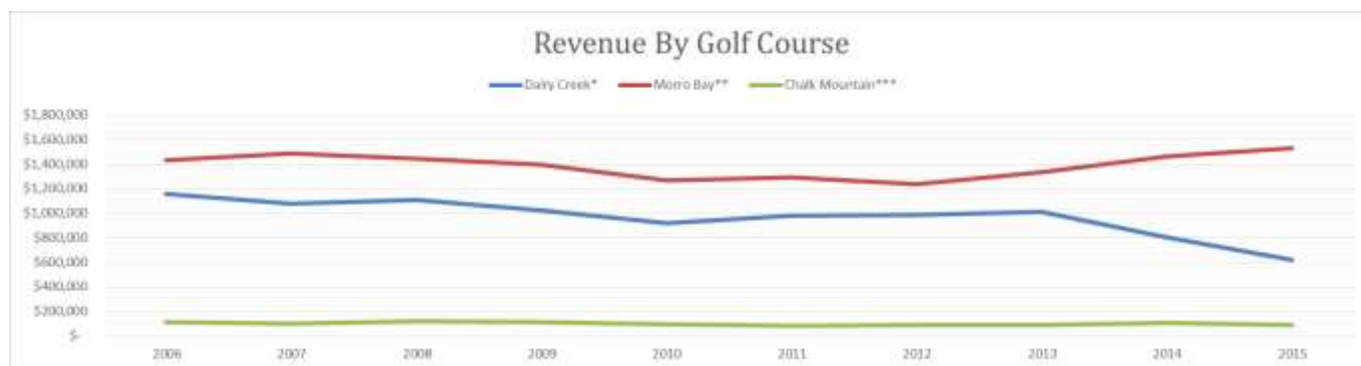
The County has three golf courses as part of an enterprise program within the Department of Parks and Recreation: Dairy Creek Golf Course, Morro Bay State Park Golf Course, and Chalk Mountain Golf Course. Our golf program offers an affordable opportunity for all generations to participate in an activity that provides a source of exercise and allows people to come together in club groups, tournaments, fundraisers and general play to build stronger social bonds with each other. Golf in San Luis Obispo County contributes to our tourism-based economy and raises money for non-profit organizations such as Rotary international, French Hospital, Big Brothers and Big Sisters, various school programs, and a multitude of smaller events focused on local families and individuals. Each of our courses provides venues for the San Luis Obispo, Mission Prep, Atascadero, Templeton, and Morro Bay high school boys and girls golf teams to teach the values and skills that are required to succeed at golf and life. Additionally, we offer multiple junior clinics, are hosts for the SLO Jr. Golf Tour, and provide recreational avenues for kids to keep them active.

In many metropolitan areas, golf courses are often the only green open spaces that provide outdoor sanctuaries for community members as well as local wildlife. Though that is not the case in our county, our three courses do provide large carbon sinks that help clean the air and filter various sources of water that eventually enter the ground water systems as well as provide important open space areas to protect view sheds. Our courses have also received the accreditation of Audubon Sanctuary status, demonstrating their ability to promote ecologically sound land management and the conservation of natural resources. County staff is leading the way to more sustainable golf operations through the creation of a Zero Waste Park that has received national attention for the efforts to provide a model that can be replicated at other golf facilities across the country. The work done at Dairy Creek's Zero Waste Park was instrumental to secure a \$110,000 grant awarded to the Integrated Waste Management Authority to provide recycling waste receptacles for all golf courses within the County. Staff also presented SLO County's Zero Waste Park at a Symposium for Affordable Golf in the fall of 2012 and Dairy Creek hosted the Symposium during the Spring of 2014.

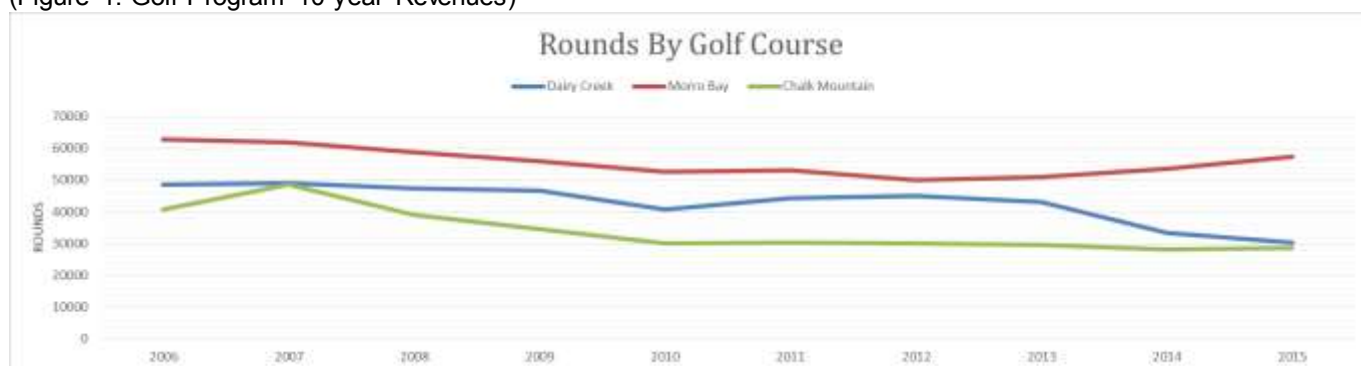
There are a number of privately operated golf courses in the county and some municipally operated courses such as our three courses. While ours is primarily an enterprise program that generates revenues to support its operation, there is a public good served by having affordable golf within any community. The availability of affordable golf helps keep the overall greens fees within the county lower by incentivizing other courses to keep fees competitive. The Board of Supervisors has supported this value through a commitment to establish Dairy Creek Golf Course and open it to the public in 1997, to dedicate \$12,500 annually to marketing the courses, to investing \$350,000 in Chalk Mountain Golf Course in 2007, and by investing in the Cayucos Pier which provides a rent offset for Morro Bay State Park Golf Course.

The fiscal sustainability of continuing to operate the golf program as an enterprise fund is currently jeopardized by the lack

of available recycled water to irrigate the course. Dairy Creek Golf Course is now operating with 45% of the water that is required for desirable quality conditions expected by golfers. This reduction is attributable to Assembly Bill 109 stipulating that all State prisons reduce their prison population and to water conservation efforts throughout the State including facilities within the California Men's Colony (CMC) distribution system. Dairy Creek does have the right to purchase up to 100 acre feet of water annually from CMC's Whale Rock allocation when available. However, over the last two years, CMC has stated that this water is not available. The lack of available irrigation water has significantly affected Dairy Creek Golf Courses' ability to attract and maintain customers. Rounds of golf have declined by 29% and revenues have subsequently reduced by 39% as compared to 2013 (figure 1 and 2). The revenue decrease is greater than the rounds decrease due to reduced fees because of the playing conditions. The reduced revenue at Dairy Creek has impacted the ability of the Golf fund center to remain viable as an enterprise fund and impacts the ability of the golf program to pay the bond loan that was used to construct Dairy Creek Golf Course.



(Figure 1: Golf Program 10-year Revenues)



(Figure 2: Golf Program 10-year Rounds)

The bond loan, initially issued in 1995, was refinanced in 2002 and combined with the loan for the County Government Center, located at 1055 Monterey Street. This loan was refinanced again in 2012. The debt for Dairy Creek Golf Course is approximately 27% of the total bond debt. As of the end of the FY 2015-16, Golf will have a remaining balance of \$5.7 M of the total balance of \$21.3 M. The annual debt service payment for golf is \$485,000, which includes both principle and interest portions of the loan. The loan is scheduled to be paid in full in October 2027.

Operations at Dairy Creek are running at a deficit approximately equal to the amount of golf's debt service payment of \$485,000. The projected deficit for the whole golf program in FY 2015-16 is \$555,707 which is from a combination of loss of revenue and higher costs prior to having a new concession operation in place. The projected FY 2016-17 deficit is \$467,231. If the program continues to operate under current conditions, golf's reserve funding to address these deficits will likely be exhausted before the 2016-17 fiscal year end.

To continue to operate and meet the goals of the golf program to provide access and equity to recreational opportunities within sustainable operations, Dairy Creek Golf Course needs an allocation of supplemental water to create course conditions in the summer that can generate sufficient revenue to make the debt payment obligation.

Any alternative without supplemental water requires a source of external funding for the foreseeable future. With external

funding to close the operational deficit, the golf program can operate in a financially neutral position with poor play quality available in the summer months at Dairy Creek Golf Course. If the course is closed, external funding is still necessary to repay the bond debt. Eighteen options were considered for implementation, detailed in Attachment A, and are broadly in the following categories:

- Supplemental Water – allocation of supplemental Whale Rock water and development of an additional holding pond
- Funding/Revenue – General Fund support, integration into Parks, or increased fees
- Conversion to other use – practice facility, campground, event space, closure
- Operational changes to golf – reduction of employees, concession operations, and management company operations in different combinations

Of these 18 options, only 5 meet the ability to have the facility remain a viable recreational resource while being fiscally responsible:

- Supplemental water with or without additional storage pond
- General Fund support of Golf
- Special Revenue Fund within Parks with possible supplemental General Fund
- Conversion to campground/event space
- Management company operations

Supplemental Water Options:

There are two elements to having sufficient water for continued operations: water delivery (an immediate issue) and water storage (a long term solution). Dairy Creek requires approximately 275 acre feet (AF) of water annually to maintain acceptable turf and related playing conditions for our customers. Prior to 2013, CMC delivered an annual average of 220 AF of water. Recently, CMC has been able to provide a two year average of only 112.6 AF of water for use at Dairy Creek. This results in a water shortfall of 162.4 AF of water on an annual basis.

There is no anticipated increase in the prison population and so, no anticipated increase in the available reclaimed water from the treatment plant. Supplemental water is needed and since there is no additional reclaimed water available, water needs to come from some other source. 22 test wells were drilled on the property with no useable well identified. A state water pipeline runs through the course, but no turnout is installed in this line to service the course. While state water allocations are not fully reliable, installation of a turnout could provide sufficient supplemental water when state water is available. There is a turnout connected to the Whale Rock Reservoir infrastructure that makes physical use of this water possible and Dairy Creek has the right to purchase 100 acre feet allotments from CMC when available. No other water source has a physical connection to Dairy Creek Golf Course. The only source of delivery of supplemental water with existing infrastructure is pursuing a water allocation of up to 150 acre feet per year that can be traded with any of the Whale Rock entitled agencies (CMC, Cal Poly or City of San Luis Obispo) for delivery of Whale Rock water to the golf course. If reliable water from Whale Rock can be secured to supplement the recycled water, no additional storage pond or supplemental revenue would be required. However, a storage pond would reduce the amount of Whale Rock water needed to supplement recycled water.

Three ponds are used to store 75 AF of water for use on the golf course. It is estimated that 65 AF of this water is actually available for use based upon the ability of infrastructure to pump this water. During the rainy season, run-off fills the ponds, which causes staff to request that CMC cease recycled water deliveries as there simply is no more storage space available. This water is forfeited once it is declined. An additional reservoir would help the golf course survive the dry summer months by allowing the course to collect more rain and recycled water deliveries during the rainy season. This project would also reduce the amount of water needed for purchase from Whale Rock. A project was submitted in the FY 2016-17 Capital Improvement Program selection process to construct an additional storage pond for Dairy Creek Golf Course. The project has an estimated cost of \$1,157,900 based on similar pond projects at other courses and estimation done by Architectural Services. Due to a lack of funding for the project identified at the time of submittal and other priorities; it was not included in the Capital Improvement Plan presented to the Board on February 16, 2016.

There are two potential funding sources that can be considered for construction of a storage pond that would require Board approval to pursue:

1. The Board allocated \$300,000 of Public Facility Fees (PFF) in May 2011 for use within El Chorro Regional Park by the SLO Botanical Garden. The County entered in to an MOU with the Friends of the SLO Botanical Garden in July 2011, requiring that the project be completed by July 2012. That MOU was renewed three times to extend the completion date until December 2015. A request for a fourth renewal and extension of the date was proposed with a reduction in the proposed scope. County Parks provided a draft MOU reducing the scope and extending the time, but this was rejected by the Friends of the SLO Botanical Garden and the MOU expired in December 2015. The SLO Botanical Garden has proposed a new amendment to extend that project, but it has not been approved. That \$300,000 in PFF can remain in El Chorro Regional Park, but be reallocated to the storage pond project at Dairy Creek Golf Course. The distribution of recycled water from the storage ponds serves the Botanical Garden and the park facilities as well as the golf course.
2. There is also an anticipated approximately \$350,000 savings from the budgeted amount for completion of the Cayucos Pier project. That funding was from a General Fund loan that could be allocated to the storage pond project.

With \$650,000 in funds potentially available, staff can begin work to complete the environmental compliance work and design work while seeking matching grant funds from water infrastructure grants or other sources for construction. The County could also fill the remaining estimated \$507,900 funding gap through a General Fund investment in the Capital Improvement Program.

Funding/Revenue Options:

Without supplemental water, the golf program is not sustainable as an enterprise fund. A surcharge to assist in funding the bond payment obligation is currently charged for each round of golf played on any of the three courses in the golf program. Under pre and post reduction recycled water delivery conditions, the following amounts were collected to fund the debt payments:

	Pre-reduction	Post-reduction
Dairy Creek Golf Course:	\$144,974	\$ 96,466
Morro Bay Golf Course:	\$133,146	\$136,992
Chalk Mountain Golf Course:	\$ 46,922	\$ 44,316
Golf Reserves:	<u>\$159,958</u>	<u>\$207,226</u>
Total Payment:	\$485,000	\$485,000

Due to playing conditions at Dairy Creek Golf Course over the last two years, only two-thirds of Dairy Creek's prior surcharge amounts have been collected. The debt payments have been supported by Golf Reserves in the amount of \$207,000 for each of the last two years.

The Board could allocate an amount up to the projected FY 2016-17 operating deficit of \$467,000 from the County General Fund to support the continuation of the golf program. General Fund allocation to support the golf program is not unprecedented. An annual allocation of \$12,500 is provided to market the program, \$350,000 was spent to renovate and improve irrigation efficiency, sand bunkers, and tee boxes at Chalk Mountain Golf Course, and the use of funds at the Cayucos Pier provided rent offsets for the golf program.

The Board could also eliminate Fund Center 427 – Golf and combine it with Fund Center 305 – Parks. This would return Golf to a Special Revenue Fund within Parks instead of an independent Enterprise Fund. Under this alternative, Parks would request that the Board provide General Fund support between \$159,958 (the amount Golf Reserves had historically provided to cover the debt payment) and \$467,000 (the projected operational deficit for FY 2016-17). Depending on the amount of General Fund support allocated, the remainder of the operating deficit for golf could be made up through greater sharing of staff, cessation or delay of addressing deferred maintenance needs, and eliminating or reducing the reserves held for Parks. Some golf staff would likely be moved into existing parks vacancies. Dairy Creek would operate as a winter/spring course with minimal use in summer/fall.

Conversion Options:

Revenue can be replaced by conversion of the course to an expanded campground with event space targeting weddings

and concerts. Although a more in-depth analysis of project scope and costs would need to be performed if this option were chosen for further exploration, staff's initial estimate of capital outlay to achieve this project would be approximately \$1.5M to \$2M. This option would include expansion of the campground roads and infrastructure to include new campsites including hookups and camping cabins, development of the infrastructure for a special event facility for weddings and concerts, and retaining the driving range as a support feature with some golf practice facilities. The existing campground is underdeveloped and under-marketed as a close to San Luis Obispo accommodation option. Expanding and improving the campground to include additional hookups and camping cabins would improve the ability to market the campground to visitors to San Luis Obispo. Cooperation with Cal Poly to encourage families visiting students to use the campground and working with the Recreation, Parks, and Tourism Administration Department in operating and promoting the campground increases the likelihood of success. Currently, the campground is geographically constrained, but using the golf course allows the campground to curve back to reach the existing clubhouse, providing an opportunity to convert the clubhouse to a campground feature as a restaurant, camp store, and activity center.

Additionally, there are a number of locations near the existing clubhouse that could be converted to event space for weddings, concerts, and other special events. The views are great, the proximity to San Luis Obispo is good, and the existence of the clubhouse with a full kitchen is ideal. This again provides an opportunity to partner with Cal Poly as a potential partnership operation.

Operational Changes Option:

Municipal golf courses throughout the country operate under many different models. Assuming there would be a willing concession operator for all the courses (which may be doubtful without reliable water at Dairy Creek); the County could minimize its losses by entering into a concession contract for full operation of all the courses. This, however, requires entering into an involuntary transfer or layoff process for golf course staff and notice of cancellation of existing concession contracts. Staff considered this and other options and ran through estimated budget scenarios under each model, including those with supplemental water and those that involve conversion from golf course use to no use or some other recreational use. These are presented in Attachment A. Many of these were rejected from further consideration due to the need for significant capital investment, long returns on investment, or financial infeasibility.

The only fiscally feasible option in this category is entering in to a service contract with a professional golf management company to operate all golf courses. This option will substantially affect County employees and the current concessionaire and related employees. The result would be the elimination of all County golf staff except a superintendent to manage the contracts, market the operations, and maintain community involvement while at the same time cancelling the existing three concession contracts using the 12 month opt-out provision. The management company through a short term contract would provide all golf services for a fee. County Parks would receive all revenues while being responsible for operating expenses, capital improvements, and reserve funds. This option assumes more financial risk with a need for more oversight; however it would keep the courses open to the public without required additional external funding.

OTHER AGENCY INVOLVEMENT/IMPACT

The Department of Parks and Recreation has coordinated with the County Administrative Office and the Department of Public Works in addressing the issues with water and the financial viability of the golf program. The Department of Parks and Recreation has also coordinated with the California Men's Colony and the City of San Luis Obispo regarding the availability of recycled water and Whale Rock water. The Department of Parks and Recreation continues to collaborate with Cal Poly for efforts related to facility use by the Cal Poly Golf Teams, turf management programs and experimental research, recreation programming, and sustainability. In the very long term, the partnership with Cal Poly can provide research opportunities to investigate and develop hybrid plant material that can survive with less water than current traditional grass mixtures. If such material can be developed, it could affect the water consumption of courses throughout the western United States.

BUSINESS IMPACT STATEMENT

With no action, the golf program will become unsustainable and impact the ability of our concession business partner to continue to be financially successful. This impacts the Recreation and Accommodation cluster as identified in the "Uniquely SLO County" Cluster of Opportunity identified by the Economic Vitality Corporation.

FINANCIAL CONSIDERATIONS

With no action, the golf program will deplete the golf reserves before the end of FY 2016-17. Payment of the bond obligations must still be made and the Board will have to decide how to continue to meet bond obligations. Allocation of General Fund revenues to the program will reduce the availability of General Fund for other County programs.

RESULTS

Maintaining a viable golf program will provide affordable golf options for the residents of the County and will contribute to the Community Results of a healthy, livable and prosperous community by providing recreation, opportunities for social connections and support of the tourism economy of the County. Continuing the program also supports the following Department's Strategic Plan objectives:

Objective 1.2 – Provide recreational opportunities at the County's Golf Courses

Objective 1.3 – Provide sustainable parks and golf courses for the community

Objective 2.2 – Ensure access and equity to our parks for all individuals

ATTACHMENTS

1. Attachment A: Dairy Creek Options
2. Attachment B: Dairy Creek Decision Tree